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ALBERTA ECONOMIC DEVELOPMENT AND TRADE

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A LETTER FROM ALBERTA An Introduction to *Inside/Out*

Dear Readers:

Greetings from Alberta, especially to all our international friends and colleagues.

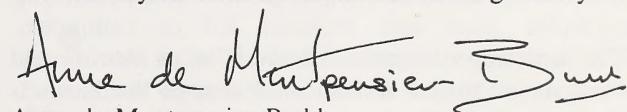
In the last few years, much has been said and done with newsletters. There are devotees, who hail such letters as welcomed insight and critics who, immediately at the arrival of a newsletter relegate it to the waste basket.

Well, we in the Strategic Planning and Research Branch aspire to make this newsletter not only newsworthy but also intriguing. So much so, that some of you may even wish to offer your own articles and opinions for publication. The intent of *Inside/Out* is to deal with what is new and interesting in social, economic and technological issues.

We hope to take wisdom from inside Alberta and turn it out, and bring ideas from outside back in.

Our title, *Inside/Out*, is synonymous with our intent. We want to connect with all of you and forge new friendships by sharing our ideas, opinions, information and by bringing research communities closer together. We hope to take wisdom from inside Alberta and turn it out, and bring ideas from outside back in.

The newsletter is a team effort. I would like to thank all those who have contributed, especially our Executive Management Committee for their very active support in this new venture. We have had a great deal of fun in putting it together. So please come and join us. We are just three seconds away from you by fax and we very much look forward to hearing from you.


Anne de Montpensier-Budd
Head of Branch

FUTURES Scenario planning

Planning for what might not happen

Faced with an increasingly turbulent business cycle, few businesses are happy with the way they plan for the future. Traditional business planning methods are beginning to fail often and produce forecasting errors of dramatic and unprecedented sizes. This has motivated some firms, and scared others, into trying a different approach called *scenario planning*.

Conventional forecasting techniques are based on the assumption that tomorrow's world will be much like today's and that any change from today to tomorrow will be gradual. Therefore, when the business environment is stable and is subject only to gradual change, these projections can be reasonably correct. But when faced with uncertainty, traditional techniques

fail their most needed function, that is, anticipating major shifts in the business environment.

A better approach when forecasting and planning is to accept uncertainty, try to understand it and make it part of our reasoning. Uncertainty arises from basic structural features of the business environment. In order to accommodate this reality into planning, increasing emphasis is being placed by corporate planners on the use of scenario analysis. Unlike traditional extrapolation techniques, scenario analysis provides planners with a means of systematically broadening their creative views of the future.

Scenario analysis starts by asking two questions:

- 1) What are the key decisions which an organization has to make?
- 2) What are the key elements in the business environment which influence those decisions?

The next step of scenario analysis is to identify and track major forces which could change the business environment in the future. How these trends unfold generally describes alternative pictures of the business environment, or scenarios.

*"Supposing a tree fell down, Pooh,
when we were underneath it?"
"Supposing it didn't," said Pooh after
careful thought.*

A.A. Milne, The House at Pooh Corner.

Several alternatives are often combined into one scenario. For example, the growth of market economies in Eastern Europe, plus the developments with the General Agreement on Tariffs and Trade, can be linked to form a simple scenario on trade flows between Europe and the rest of the world. These combinations allow planners to address an array of possibilities and to rehearse their responses to each possible business environment.

Once scenarios are developed, planners analyze the implications for the key decision factors—1) and 2) above. Well prepared scenarios provide planners with a tool to bring together diverse kinds of information about future business environments and to avoid blind spots resulting from looking at isolated trends.

Scenarios also help planners make explicit their basic assumptions about the future business environment. Analyzing the trends that are used to compile scenarios, provides the added benefit of keeping planners watchful for early warning signs of change.

Using scenarios for planning allows for the rehearsal of the future, even though that particular future might not happen. But then again it might. Scenario planning, therefore, improves the ability of planners to act with a knowledgeable sense of risk and opportunity in the turbulent business environment.

INTERNATIONAL Environmental opportunities in Asian countries

One nation's effluent can spread to another. So too, can the benefits of stopping the flow.

The growing economies of Southeast Asia are approaching a new threshold in their stage of industrial development. Over the past 20 years the countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand have developed to the point where they are within sight of breaking into the industrial league of nations. They now face one of the most irritating problems of industrial nations: How do you take out the trash, and where do you put it? Perhaps the older developed nations can be of some help.

Among the economies of Southeast Asia, Singapore's is very advanced and is on par with that of Western countries in terms of public health infrastructure. What the country lacks are systems to handle wastes produced by advanced industry. They also need to place more effort on waste monitoring and reduction at the source. Technology and expertise in this field is required from abroad. Local companies by and large

lack environmental capabilities. The only drawback in serving this market is the small size of the country at approximately 3 million people.

The other countries in the region offer different but rewarding opportunities in the environmental sector. With much larger populations their needs are more rudimentary, and in some cases, desperate. Sewage and drainage projects are needed to serve the basic needs of growing populations, let alone their developing industries. Professional planning, construction, and maintenance of sewers is required for rapidly industrializing areas.

With much larger populations their needs are more rudimentary, and in some cases, desperate.

Few of these nations will wait to have clean running water in every house before they develop their industrial sectors further. However, with careful management, development of infrastructure for basic health needs doesn't have to conflict with industry development. The chances of a conflict would be greatly reduced if these countries could access the experience and skills of developed nations.

Mayasia, Thailand, the Phillipines and Indonesia—with a combined population of 316 million people—are undergoing infrastructure development, but at differing paces. In coming years many environmental projects in these countries will be eligible for international financial aid from the World Bank, the Asian Development Bank and others.

These future projects will represent billions of dollars of expenditures. Given the youth of the environmental engineering and services industry in this part of the world the skills and equipment needed will have to be imported. This presents opportunities which should be seized by companies in the developed world possessing expertise in environmental services.

Next issue: Hong Kong and Taiwan.

Risk analysis and global change

On October 3rd and 4th in Edmonton, the Strategic Planning and Research Branch of Alberta Economic Development and Trade, jointly hosted an international conference with the Friedrich Ebert Stiftung of Germany. The conference provided participants from four continents with an opportunity to exchange ideas and viewpoints.

The theme of the conference was **Risk Analysis and World Development Trends in Selected Large States with Respect to Society, Legitimacy, and Political Conflicts**. Though the theme was quite a mouthful, the case studies of Australia, Canada, the USSR, South Africa and India provided succinct and useful insights.

The Friedrich Ebert Foundation is named after the first Reich President of the German republic. It is a non-profit, private educational and cultural institution committed to the concepts and basic values of democratic socialism and the labour movement. The Foundation's research focuses on practical questions in the fields of economics, social science and on the history of the German and international labour movements. The Foundation strives to contribute to the realization of the objectives Friedrich Ebert worked towards:

- political and social education in a democratic spirit,
- promotion of understanding and cooperation among nations, and
- financial and intellectual support for gifted students.

The Foundation was represented at the conference by Dr. Klaus-Peter Treydte, an expert on the Middle East and Western Industrialized countries; Dr. Peter Gey, an expert on Eastern Industrialized countries; and Dr. Heribert Weiland, an expert in Third World issues, especially Southern African.

Additional participants in the conference included Mr. N. Vijayasingam, past Secretary General of the Sri Lanka TUC; Dr. Peter Botsman, Executive Director of the Evatt Foundation, one of Australia's prominent public policy "think tanks"; and Dr. Kenneth Norrie, a Canadian constitutional expert at the University of

Alberta. As well, the Alberta Government was represented by officials from its various departments.

The wide range of experiences brought many opinions to the table. Dr. Treydte's role in his opening address was to set a common ground for the opinions to be discussed. He spoke on **Risk Analysis and Political Development: A Service Industry in Growth Under Rapidly Changing Paradigms.**

Risk assessment and analysis, Dr Treydte suggested, should be structured along five guidelines.

- 1) focus on regime change, not political instability,
- 2) the goal of analysis should be early warning, not prediction or explanation,
- 3) identify multiple conditions not single forces,
- 4) assess dynamic not static measures, and
- 5) accept the necessity of interaction and the inevitability of error.

Dr. Treydte conceded, however, that risk analysis is an art and that "every analytical model has its methodological snags." With these remarks, the tone of the conference was set and the rewarding debates among the participants began.

The following topics were addressed at the conference:

- Dr. Gey
 - **The Soviet Union between Separatist Movements and Economic Challenges - Scenarios for the Future**
- Dr. Weiland
 - **South Africa: A Political System in Transition: Emerging Power, Legitimacy Structures and Future Trends**
- Dr. Norrie
 - **The Canadian Constitution - The Issues**
- Mr. Vijayasingam
 - **Society and Politics after the End of the Nehru Dynasty: Groupings - Alliances - Conflicts in a Socially and Ethnically Polarized Multi Layer Societies**

- Dr. Botsman

- **Australia's Economic Accord: Success or Failure?**

Though each talk was interesting on its own, it was in the debates that followed each that provided most of the insights on how different cultures, political doctrines, and experiences tempered people's perceptions and arguments. However, the approach common to them all was their political analysis and risk assessment of large states with disintegrative tendencies.

Bundesrat delegation visit a valuable information exchange

Some German Cabinet Ministers came to Edmonton to learn about Canada. Here's what we learned about them.

This autumn, a Delegation of the Permanent Advisory Council to the Bundesrat of the Federal Republic of Germany embarked on a cross Canada fact-finding tour. The Council came to Canada with a very specific agenda of enquiry including:

- federalism in Canada
- ethnic issues with special reference to the native question
- women's issues
- multiculturalism in Canada, is it working?

On their visit to Western Canada, the Province of Alberta had the opportunity and honour of hosting the delegation and participating in their mission. Though the findings of their mission have not yet been released, their visit has already produced some benefits. We Canadians heard first-hand how our country is perceived. We also learned a great deal about the democratic system in Germany—a useful lesson, given our constitutional debate.

Like the Canadian Parliament, the German parliamentary system consists of two legislative assemblies. The Lower House, known as the Bundestag (Federal Assembly), is directly elected and is the

country's main legislative organ. The Upper House, known as the Bundesrat (Federal Council), represents the German states referred to as Laender. The Bundesrat is the institution through which the sixteen German states participate in the legislative and administrative processes of the federal government.

Members of the German Bundesrat are not elected directly, but rather are members of the Laender governments or their delegates. Prior to reunification, the Bundesrat consisted of 45 seats with members representing 11 Laender including Berlin. With reunification, the Bundesrat was enlarged to include 5 new Laender, thereby bringing the total number of seats in the Upper House to 68. As members are appointed by their respective Laender, no length is set on how long they serve in the Bundesrat.

The structure and functioning of the Bundesrat is of special interest to Canadians as we search for a reform of our Upper House.

The structure and functioning of the Bundesrat is of special interest to Canadians as we search for a reform of our Upper House, the Senate. In Canada, Senators hold no elected office and are appointed at the sole discretion of the Prime Minister. At present their roles in the political affairs of the nation are negligible. However, a number of Senate reform proposals have been advanced and are based on, or are similar to, the German model. Of particular interest is the Bundesrat role in reducing the potential for intergovernmental conflict and promoting cooperation and consensus between the federal and Laender governments. While all the features of this system are not directly applicable to Canada, a deeper awareness and better understanding of it will make an important contribution to the dialogue going on in Canada today.

By coincidence the members of the Bundesrat were in Edmonton at the same time as the Friedrich Ebert Foundation conference. Arrangements were made so that the two delegations could celebrate together the first anniversary of Germany's reunification on October 3rd.

EDITORIAL

Competitiveness: One word, any number of meanings

This is the first in a series of articles that take on the "not-so-well-defined" terms that describe our economies. This issue answers the question "Why define competitiveness?"

A statement of fact: if you lose a competition you don't get first prize. At best you receive a consolation prize. "Parting gifts" as the game shows call them—trinkets and a board game version of the competition you just lost. This is all good sport when you're competing for a blue ribbon, but when the award is the maintenance of a nation's relative standard of living, the competition becomes serious and the loser's consolation meagre.

With such high stakes there should not be a nation in the world whose governments, educators, business leaders and labour unions are not clear on what *competitiveness* is, and what must be done to achieve and maintain it. Surprisingly, this is not so. In Canada, the *new globally competitive environment* is a phrase buzzing from podiums, editorials, association position papers, and government documents. All agree that something should be done to improve our competitiveness, but few can agree on what competitiveness is, let alone what that something should be.

Why define competitiveness?

To influence competitiveness its characteristics need to be known. Some groups have transformed this reality to promote specific agendas. Lower wage costs, increased productivity through increased job security, improved education, currency devaluation, more/less social programs, low interest rates and low inflation, have each been advanced as the panacea to competitive problems. In isolation none of these solutions will address the range of competitive problems we have, some may even exacerbate our situation. These agendas are so vigorously promoted because the proponent's view of what competitiveness means, is focused on their specific need. These needs, however, may not coincide with society's. For example, if the prize for being competitive is improved living standards, then

how can continually driving real wage costs down below our competitors achieve this? It won't.

Many views on the competitive woes of Alberta and Canada are too narrow. This narrowness results from several truisms. For example: the higher the value of the Canadian dollar, the harder it is to sell exports. An indisputable statement, but too limited to encompass a definition of competitiveness and a solution to our problem. If our competitiveness in Alberta were defined by the value of the dollar, then the simple policy solution would be to devalue our currency relative to our competitors.

Ignoring the fact that the Government of Alberta has no way of fulfilling this policy, imagine the state of international currency markets as other jurisdictions boldly strove to drive the value of their currencies to zero too. This is not to say the value of the dollar does not matter; it does, but only when a broader view of competitiveness is taken.

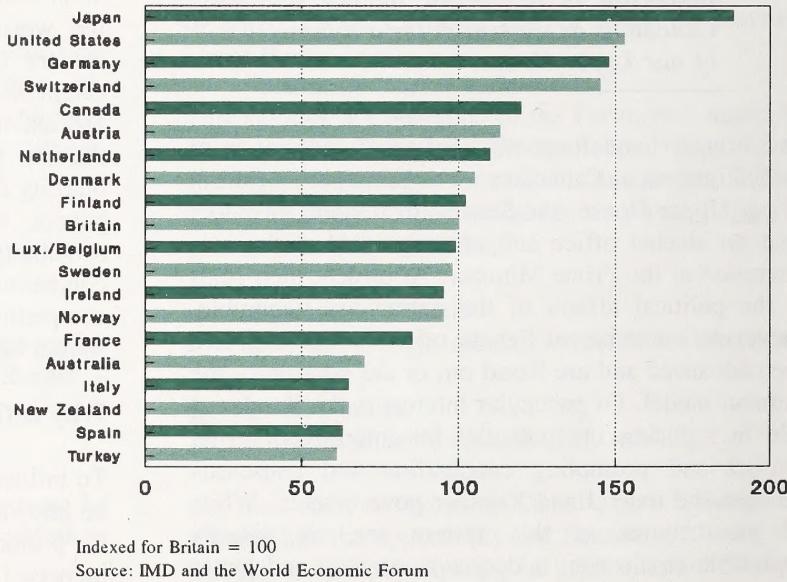
Before policies can be set to improve our competitive position, we need to know how to determine what *competitiveness* is.

Next issue we tackle the task of forming a definition for competitiveness.

STATISTICS Competitiveness Index

Every year the World Competitiveness Forum and a Swiss business school called IMD, publish a ranking of competitive nations. As this issue's editorial talks about competitiveness, we have reproduced the top twenty countries.

This is one of the few efforts made at quantifying competitiveness. The index incorporates concrete variables such as GDP and employment, but it also touches on less tangible data, like the attitudes of businesses and their future orientation. There are even allowances for the number of fax machines per capita.



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